Matthias Finger
Jeremy Allouche

The transformation of the global water sector: The role of the World Bank and "Public Service TNCs"

Working paper de l'IDHEAP 6/2002
UER: Management des entreprises publiques

INSTITUT DE HAUTES ETUDES EN ADMINISTRATION PUBLIQUE
Fondation autonome associée à l'Université de Lausanne et à l'Ecole polytechnique fédérale de Lausanne

The transformation of the global water sector: The role of the World Bank and "Public Service TNCs"

Matthias Finger
Jeremy Allouche

UER: Management des entreprises publiques

Working paper de l'IDHEAP no 6/2002
avril 2002

Ce document se trouve sur notre site Internet: http://www.idheap.ch/

Table des matières

The transformation of the global water sector: The role of the World Bank and "Public Service TNCs"

Matthias Finger & Jeremy Allouche

The new quest for sustainability

To recall, the water sector is not only subject to the general trend of privatizing public goods, moreover, it also is under particular environmental pressure. The growing commitment to the principle of sustainable development, resulting from the Brundtland Commission and the highly mediated Rio Earth Summit since the early nineties, have been translated during the 1990s into new ways of dealing with water resources. Following the International Drinking Water Supply and Sanitation Decade (1981-1990), the international community became aware of the increasing water scarcity and new ways of dealing with water resources were conceived. This substantial change in water resources management is translated in 1992 into the so-called "Dublin Statement", both as a result of the International Conference on Water and the Environment (1992) and of the UN Conference on Environment and Development (1992). It is from these two conferences that new approaches to water resources management were devised, among which the Four Guiding Principles of the Dublin Statement, which currently constitute the basic guidelines for water resources management.

From our point of view, the real major change here pertains to considering water as an economic good. Principle Four of the Dublin Statement states that water has an economic value in all its competing uses and should be recognized as an economic good. As part of this principle, it is further added that it is vital to recognize the basic right of all human beings to have access to clean water and sanitation at an affordable price. Past failure to recognize the economic value of water, it is argued, has led to wasteful and environmentally damaging uses of this resource. It was also added that managing water as an economic good is an important means in order to achieve efficient and equitable use, as well as to promote conservation and the protection of water resources. Since both conferences, it is becoming commonly accepted that water is an economic good like many others, thus the growing pressure to move water production and sewerage over to the private sector: '*the notion of water provision as a public good and welfare activity is being replaced by the concept of water as an economic good and as an input in economic activity*' (Dinar & Maria, 1998).

Arguments for privatization

Privatization of water management consequently appears as the logical consequence of the Dublin principles and this economic approach to sustainability. Privatization, indeed, is a relatively new phenomenon. It is estimated that, at the present time, still less than 10% of the world's population is provided with drinking water and sanitation services through private operators. The arguments for privatization seem to have convinced most water specialists and governments. Indeed, the case for private sector participation in water management stems from the fact that, overall, the State has not been very successful in managing its own enterprises or holding them to acceptable performance standards. For example, the World

Health Organization (WHO, 1986) found that in African countries, water supply has been constrained severely by national funding limitations, insufficiently trained personnel, frequent logistical problems, and poor operations and maintenance practices. Inappropriate legal and organizational arrangements, insufficient means of recovering costs, and inadequate planning and design also limit the ability of African and other governments to successfully manage water supplies.

In short, water supply systems are facing acute crisis not just in Africa but around the world and especially in many low-income countries. Rapid urbanization has substantially increased the demand for water and in most of these countries the supply of services has not kept pace with this increasing demand. In many cities a significant percentage of the population still does not have access to piped water. Even where it is available, systems have often been severely degraded due to chronic under- investment and inadequate maintenance, resulting in excessive water loss through leakage, poor water quality, and unreliable flow. This, in turn, has contributed to serious disease and public health problems, especially in squatter settlements. Governments in these countries face the difficult challenge of finding enormous investment funds in order to improve water supply systems.

The growing awareness of this poor performance, combined with the realization that public funds alone cannot meet the large investment needs of the sector, as well as the new ideological framework which now considers water as an economic good, have led to a great interest in private sector participation complementing the governments' role in the financing and delivering water and wastewater services. Thus the new term of "private-public partnerships".

The World Bank

The World Bank is one if not the most important actor in the formulation of water policies and in the financing of privatized water management. Putting its perspective of private sector participation in public infrastructures into practice, the World Bank has attributed, over the past 40 years, more than US$40 billion of loans to the water sector (World Bank, 1993: 65-66). But it has not remained at that: reflecting the new division of labor among international organizations, "The Bank" has recently transformed itself into the world's predominant development agency, thus actively promoting its own economic view of development (as opposed to the more social view embodied so far by the United Nations). Indeed, the World Bank has elaborated in the water, as well as in all other infrastructure sectors, a new policy and the corresponding concept of integrated "*water resources management*". Water resources management, it is argued, is *the* response to environmental problems by means of private sector participation. Says The Bank:

> "*First, water resource management policies and activities should be formulated within the context of a comprehensive analytical framework that takes into account the interdependencies among sectors and protects aquatic ecosystem. Such a framework would guide the establishment of improved coordination among sectors and protect aquatic ecosystem. Such a framework would guide the establishment of improved coordination among institutions, consistent regulations, coherent policies, and targeted government actions. Second, efficiency in water management must be improved through the greater use of pricing and through greater reliance on decentralization, user participation,*

> *privatization and financial autonomy to enhance accountability and improve performance incentives*." (World Bank, 1993: 40)

As a matter of fact, the World Bank had been shifting its focus from "water resources development" to "water resources management". Although the impetus for reforming the water sector originally stemmed from an environmental concern, the concept of "water resources management" incorporated profoundly new ideas, which in turn are rooted in the newly emerging World Bank strategies. Indeed, the World Bank was gradually transforming its initial mission, which was to support infrastructure development, to applying economic principles for a better managed world, at least better managed developing countries. As part of this general shift, the World Bank brought up, among others, the idea that, in a better managed world, the State should no longer be involved in economic activities (World Bank, 1997). Consequently, the State itself became the object of reform. Indeed, according to the World Bank's private sector specialists, the past failures in water resources management were twofold:[1] first the governments' overall failure in maintaining the infrastructure networks. Indeed, most governments had focused on expanding the services, rightly assuming that water should be provided for all. The World Bank however now responds that maintenance rather than the development of infrastructure should be the priority. Consequently, the World Bank went into training the water utilities' staff, so as to bring about better ways of dealing with the management of water resources. However, this appeared to be a second failure, and the World Bank concluded that any public service was always under political constraints, and therefore not able to make as rational decisions as would a World Bank economist.

From the mid-1990s on, water was therefore to be integrated into a far larger reform movement within the World Bank, pertaining in particular to the State's role in infrastructures. In this regard, the World Bank clearly started to identify governments as being an impediment to better management. As a result, the World Bank proposed to reform the way infrastructure services were to be provided, namely by "*the wider application of commercial principles to service providers, the broader use of competition, and the increased involvement of users where commercial and competitive behavior is constrained*" (World Bank, 1994: 8.). Private sector participation has thus significantly been promoted by World Bank policy, forcing Third World governments to take credits for infrastructure and development and rehabilitation, which in turn go to Northern companies. In doing so, the World Bank has not contributed to empowering local, regional, or national water companies. Rather, it has actively promoted the emergence and increasingly the global predominance of what one can call "public services TNCs" (e.g., Hall, 1998; Finger & Allouche, 2001).

Public services TNCs

Like all other TNCs, the ones active in the water sector display a strong concentration process, with the result that most privatized water supply and sewerage today is under the control of just three or four water TNCs or their subsidiaries or partners. The large amount of mergers and acquisition in this sector over the past ten years, as shown in the following table, are clearly proof enough of this process of concentration. Indeed, between 1994 and 1998 there were 139 water-related mergers and acquisitions, with a total market value of nearly £10 billion. The rate of mergers and acquisitions exploded in 1999 with the largest mergers and acquisition of U.S. Filter, valued at over $6 billion, by Vivendi.

[1] Author's interview with a World Bank private sector specialist, Washington, D.C., 20 March 2000.

Table 1: Mergers and acquisitions in the global water industry, 1994-1998 (Stanbury, 1999: 16).

	1994	1995	1996	1997	1998
Total numbers of agreements	25	27	31	29	24
Total value of agreements (US$M)	877.51	690.13	921.7	669.52	699.8
Global market (%)	8.91	7.23	9.8	6.82	7.2

Note: Data includes all M & A deals involving water companies (water-to-water plus cross-sector deals) across all parts of the water industry value chain, including extraction, supply, sewerage, irrigation, etc.

The two biggest water TNCs are Suez Lyonnaise des Eaux and Vivendi, both ranked among the first 100 Fortune 500 companies. Suez Lyonnaise des Eaux, for example, has a little more than 200'000 employees in 120 countries and revenues of 31.36 billion Euro (1999). Vivendi is slightly larger with 235'610 employees and a net sale of 31.7 billion Euro (1998). One can thus easily forecast that the water sector will follow the same path as most other globalized industries, where growing concentration is justified by the need to reach a volume critical enough to generate economies of scale. Of course, these 'water TNCs' have also considerably diversified their activities as illustrated in the following comparison between Vivendi's and Lyonnaise des Eaux's main business activities.

Table 2: A comparison between Vivendi's and Suez Lyonnaise des Eaux' sectoral integration (compiled from PSIRU database, 01/09/1999)

Suez Lyonnaise des Eaux	**Vivendi**
Water Water engineering Water treatment engineering Water treatment chemicals	Water Water engineering Water management Waste water
Energy	Energy Heating
Gas distribution Gas transmission	
Electricity	 Electricity generation
Waste collection and disposal	 Refuse collection
Environmental services	Environmental services
Communications Telecommunications Cable Television Computers	Communications Telecommunications Cable Television Computers Film
Construction Construction related Highways	Construction
Health services Health care	
Manufacturing	
Prison management	
  Vehicle transportation	Transport Rail
Sports and leisure	Sports and Leisure
Consultancy	
Revenue collection	
Parking	
	Cleaning
	Education
	IT
	Property services
Other	Other

Building on the merger between Suez and Lyonnaise des Eaux in 1997, Suez Lyonnaise des Eaux has indeed substantially diversified, and today displays operations in four main sectors, water, energy, waste management, and communications, but it also has a large construction

division. Having restructured its strategy around these four sectors, 75 percent of the capital employed in 1999 was already concentrated in these four core businesses.[2] Thus the group is mainly active in infrastructure services, with the ambition to become, by 2002, the world leader in private infrastructure services,[3] transforming each of its four main sectors into a global player.

At the end of the 1990s, Vivendi seemed to have refocused most of its activities around two core sectors, i.e., environment and communication. While the group has consolidated net sales of 31.7 billions Euros, these two sectors represented respectively 15.4 billion Euro[4] and 5.96 billion Euro, accounting for more than 67.4 per cent of the group's activities. However, it should be recalled that up to 1998 slightly less than 50 per cent of Vivendi's activities were in the environmental sector and that the communications sector was the least developed. The three main activities then were utilities, construction and property, and communication.

It seems that it is France's tradition of private sector involvement in water provision, which has enabled Suez Lyonnaise des Eaux and Vivendi to become the world's leaders in privatized water. Indeed, at least in the short run one cannot imagine any serious competitor to these two giants. Their "multi-service" or "multi-utilities" strategies enable them to offer an integrated package of public services on the occasion of competitive bids. Given their activities in all infrastructure sectors, they can also enter the market in multiple ways, water just being one of the entry points. However, one can observe that these traditional water TNCs are now being challenged by new groups coming from other network industries sectors, in particular the electricity sector. RWE, a German company, thanks to its recent acquisition of Thames Water, could indeed become the third main global public services TNC, may be along with American Enron. It is fair to say that it is the World Bank, which, through its policies, has actively favored the development of these public services TNCs, as well as their continuous concentration. Though impacting and benefiting from so far mainly the developing countries, this oligopolistic market structure and lack of competition will, sooner or later, also come to haunt the consumers of the industrialized North.

Private sector participation and the new challenges in the water sector

The entry of water TNCs in developing countries has indeed created several challenges, the most obvious one being the challenge of how to regulate such TNCs in the interest of the consumers (of these TNCs' services) and of the citizens who are precisely left out from TNC water provision. This in turn raises the question of the institutional arrangements necessary to control these TNCs. As shown in our book (Finger & Allouche, 2001), the World Bank does not have particularly clear ideas when it comes to regulatory institutions (Brook Cowen & Cowan, 1998; Webb & Ehrhardt, 1998). Also, it is obvious that most developing countries do neither have the financial nor the human resources required in order to successfully transform and adapt their public administration and to create regulatory institutions, a process which is necessary in order to at least somewhat control these TNCs. Also, generally the urban poor as well as the rural population will not get better water supply and sewerage services as a result of privatization. The opposite might actually be the case, as governments contract substantial World Bank loans to upgrade their urban water systems so that they can be operated by

[2] Suez Lyonnaise des Eaux, Communiqué de Presse (16 February 2000).
[3] *Suez Lyonnaise des Eaux in 1998*, Suez Lyonnaise des Eaux (1998:1).
[4] In Vivendi's 1998 *Annual Report*, this sector is still called 'utilities' rather than 'environment'. This can be explained by the fact that the strategy changed only in 1999.

TNCs, money which will not be available to respond to other needs. Such inequity also raises the question of the institutions required to ensure universal service standards in terms of access, quality, and price, at least within a given area, if not across a country. Institutional arrangements generally also remain weak when it comes to environmental and other policies.

In both cases, strong enforcement mechanisms are vital when contracting out to the private operators. Also, it is not obvious to apply the new type of contractual arrangements, i.e., delegated management, to the local level, given the limited administrative capacity in man countries. Indeed, as recognized by water specialists, successful examples of decentralization – as advocated by the World Bank – are few in developing countries: the main consequence of such a process is that it simply shifts the problem encountered by the central government to local municipalities, a problem which is further aggravated by the fact that they have even less financial, operational or technical capacities to face TNCs. In short, without strong and innovative institutional arrangements, the entry of the private sector in the water sector appears to be beneficial mainly for urban areas, yet leaves peri-urban and rural areas to their own fate (Blokland, Braadbaart & Schwartz, 1999).

Conclusion

To conclude this short analysis of the current trend of the water sector today, one can say that the reform of the sector has not been thought to its logical end, as two important elements are still missing, namely, clarification of the relationship between politics and management on the one hand and a substantial institutional dimension on the other. Indeed, Dublin has proposed and subsequently led to the enhancement of private sector participation in the water sector by allowing water to become considered also as an economic good. But Dublin, and later on the World Bank, have also called for "decentralization" and corresponding "user participation", thus confusing political decentralization (e.g., user participation) with economic decentralization (e.g., privatization).[5] The World Bank, it seems to us, is particularly guilty of this confusion, which is either due to naiveté or design, or a combination thereof. In any case, neither the World Bank, nor any of the lofty new global water organization such as the Global Water Partnership or the World Water Council have managed to come up with a solid idea of how the privatized global water sector can be regulated. Even less so, they have thought of the institutional arrangements for such a regulation, which, as everybody concurs now, has become a necessity, if not an urgency.

Furthermore, water privatization as advocated by the World Bank has not only given rise to public services TNCs as shown above, it has moreover triggered a dynamics which will lead to the further commodification of water and subsequent global TNC expansion. There are today no global institutions capable of stemming or at least regulating this dynamics. And at the national level such regulation is equally unlikely, given the numerous cases of TNC power over governments and even corruption. But it is at the local level where this unequal power relationship between global and powerful TNCs on the one hand and local communities on the other is most obvious. It is thus at the local level where opposition to water privatization will certainly be most likely.

[5] See http://www.worldbank.org/publicsector/decentralization/Different.htm.

References

Allouche, Jeremy & Finger, Matthias (2000), "User Participation in Water Resources Management: The need to examine what exists behind the rhetoric", International Water Association Specialized Conference, *Water Management for the 21st Century – Learning from the 20th century experience*, 24-25 October 2000, Berlin, Germany.

Allouche, Jeremy & Finger, Matthias (2001), "Two reasoning, but one outcome: The World Bank's evolving philosophy in establishing a "sustainable water resources management " policy", *Global Environmental Politics*, Vol. 1, No. 2, 42-7.

Blokland, Maarteen, Braadbaart, Okke & Schwartz, Klaas (Eds) (1999), *Private Business, Public Owners, Government shareholdings in Water enterprises*, Nieuwegein: The Ministry of Housing, Spatial, and the Environment, Water Supply and Sanitation, Collaborative Council.

Cavanagh, John, Anderson, Sarah & Pike, Jill (1996), "Behind the Cloak of Benevolence: World Bank and IMF Policies Hurt Workers At Home and Abroad" in Danaher, Kevin (ed), *Corporations Are Gonna Get Your Mama: Globalization and the Downsizing of the American Dream*, Monroe, Maine: Common Courage Press.

Dinar, Ariel & Maria, R. (1998), Comparative study of water institutions and their impact on water sector performance in selected countries, Saleth, Dehli: Institute of Economic Growth, (July).

Finger, Matthias & Allouche, Jeremy (2001), *Water privatisation. Transnational corporations and the re-regulation of the water industry*, Spon Press: London and New York.

Hall, David (1998), "Public Enterprise in Europe" in Hotham, G (ed), *Freedom with Responsibility – Can we unshackle public enterprise?*, London: International Institute for Public Policy Research.

Jones, Julian (1997), *Urban Water Supplies for Developing Countries: The French Approach*, Institutional Development Series, The Water, Engineering and Development Centre (WEDC), Loughborough University.

Neto, Frederico (1998), "Water privatization and regulation in England and France: a tale of two models", *Natural Resources Forum*, Vol. 22, No. 2, pp. 107-117.

Nickson, Andrew (1997), " The public-private mix in urban water supply", *International Review of Administrative Sciences*, Vol.63, No. 2, pp. 165-186.

Serageldin, Ismail (1994), *Water Supply, Sanitation, and Environmental Sustainability: The Financing Challenge*, Washington DC: World Bank.

Serageldin, Ismail (1995), *Towards sustainable management of water resources*, Directions in Development, Washington DC: World Bank.

Winpenny, James (1994), *Managing water as an economic resource*, London & New York: Routledge.

World Bank (1992a), *World Development Report 1992: Development and the Environment*, New York: Oxford University Press.

World Bank (1992b), *Water Supply and Sanitation Projects the Bank's Experience: 1967 1989*. Operation Evaluation Department. Sector Study Number 10789. 06/19/92. Washington DC: World Bank.

World Bank (1993), *Water resources management*. A World Bank Policy Paper. International Bank for Reconstruction and Development. Washington DC: The World Bank.

World Bank (1994a), *Implementing the water resource mandate of agenda 21 : the promise and the challenges for OECD countries*, Transportation, Water and Urban Development department, Washington DC: World Bank, April 1994.

World Bank (1994b), *World Development Report 1994: Investing in Infrastructure*. New York: Oxford University Press.

World Bank (1995), *Kingdom of Morocco, Water Sector Review*, Washington DC: World Bank, Report No. 14750-MOR, June 1995.
World Bank (1997a), *The Private sector in infrastructure: Strategy, Regulation and Risk*, Washington DC: World Bank.
World Bank (1997b), *Toolkits for private participation in water and sanitation*, Washington DC: World Bank.
World Bank (1997c), *World Development Report 1997: The State in a changing world*. New York: Oxford University Press.
World Bank (1997d), *Yemen, Towards a Water Strategy: An Agenda for Action*, Washington DC: World Bank, Report No. 15718-YEM, August 13, 1997.
World Bank Bangladesh (1998), *Water Resources Management in Bangladesh: Steps towards a new national water plan*. Rural Report No. 17663 BD, Rural Development Sector Unit, South Asia Region, Dhaka: The World Bank Dhaka Office.
World Health Organization (1986), *Guiding Principles for national monitoring of the water supply and sanitation sector*, WHO, Geneva.